Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

Medicare Reimbursement of Albuterol

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EXECUTIVE SUMMARY

PURPOSE

This report compares the amount Medicare reimburses for albuterol with (1) the amounts reimbursed by Medicaid and the Department of Veterans Affairs, and (2) prices available at pharmacies.

BACKGROUND

Medicare does not pay for over-the-counter or most outpatient prescription drugs. However, Medicare Part B will cover drugs which are necessary for the effective use of durable medical equipment (DME). One such drug, albuterol, is commonly used with a nebulizer to treat patients suffering from asthma or emphysema. Medicare allowed approximately $246 million for albuterol in 1999.

The Health Care Financing Administration (HCFA) contracts with four DME regional carriers who determine reimbursement amounts for nebulizer drugs. In general, the Medicare reimbursement amount for a covered drug is 95 percent of the drug's average wholesale price (AWP). Of this amount, Medicare pays 80 percent while the beneficiary is responsible for a 20 percent copayment. Each State Medicaid agency has the authority to develop its own drug reimbursement methodology subject to upper limits set by HCFA. Additionally, Medicaid receives rebates from drug manufacturers as required by Federal law. Unlike Medicare and Medicaid, the Department of Veterans Affairs (VA) purchases drugs for its healthcare system directly from manufacturers or wholesalers. There are several purchase options available to the VA, including the Federal Supply Schedule, Blanket Purchase Agreements, and VA national contracts.

We obtained reimbursement amounts for albuterol from Medicare, Medicaid, and the VA. We also determined retail prices for albuterol by contacting chain and Internet pharmacies. We compared Medicare's current reimbursement amount for albuterol to amounts reimbursed by Medicaid and the VA, and prices available at pharmacies.

FINDINGS

Medicare and its beneficiaries would save $120 million or $209 million a year if albuterol was reimbursed at amounts available through other Federal sources

The Medicare reimbursement amount for albuterol is almost seven times greater than the VA price. The VA purchases generic albuterol through the Federal Supply Schedule for only $0.07 per milligram (mg), while Medicare reimburses at $0.47 per mg. We estimate

that Medicare and its beneficiaries would save $209 million a year if reimbursement for albuterol was set at the amount available to the VA under the Federal Supply Schedule. Medicare's reimbursement amount for albuterol is almost double Medicaid's upper limit of $0.24 per mg. We estimate that Medicare and its beneficiaries would save $120 million if Medicare's reimbursement amount for albuterol equaled Medicaid's upper limit amount.

Medicare and its beneficiaries would save $47 million or $115 million a year if Medicare reimbursed albuterol at prices available at chain and Internet pharmacies

Customers walking into nearly all of the chain pharmacies we contacted would pay less than the Medicare reimbursement amount for albuterol. Prices at these pharmacies ranged from a low of $0.24 cents per mg to a high of $0.48 per mg for a single box supply. If Medicare reimbursement was set at the pharmacies' median price of $0.38 per mg, Medicare and its beneficiaries could save $47 million a year on albuterol. Some pharmacies offered even lower prices for larger quantity purchases. Prices for albuterol at the Internet pharmacies we visited ranged from $0.21 to $0.31 per mg for a single box supply. Medicare would save almost $115 million a year if its reimbursement amount for albuterol equaled the median Internet pharmacy price of $0.25 per mg. As with the chain pharmacies, discounts for larger quantity purchases were sometimes available.

RECOMMENDATION

The information in this report adds to the evidence which shows that Medicare pays too much for albuterol. The finding that Medicare pays more than the VA for albuterol is not surprising since the VA acts as a purchaser of drugs while Medicare reimburses suppliers after-the-fact. Even allowing for this difference in payment methods, Medicare's reimbursement amount for albuterol – almost seven times higher than the cost of the drug to the VA – seems excessive. It also seems excessive that Medicare beneficiaries pay more in just monthly copayments for albuterol than the VA pays for a whole month's supply of the drug. Medicaid, which reimburses for drugs in a manner similar to Medicare, has a federally-mandated upper limit for albuterol. The upper limit amount established by HCFA is about half of the Medicare amount. In addition, anyone with a prescription can walk into a retail chain pharmacy or visit an Internet pharmacy and pay a price for albuterol which is usually below the Medicare reimbursement amount. These findings raise serious doubts about the accuracy and efficacy of Medicare's payment policy.

This report found that Medicare would save between $47 million and $209 million by lowering its reimbursement amount for albuterol to prices available through other sources. It is important to note that 20 percent of these savings would directly benefit Medicare beneficiaries through reduced copayments.

We continue to support the need for lower albuterol prices for the Medicare program and its beneficiaries. We realize, however, that HCFA's power to lower drug prices through the use of its inherent reasonableness authority was recently limited by a provision of the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999. In past reports, we recommended a number of other options for lowering albuterol payments. These recommendations included (1) greater discounting of AWPs, (2) basing payments on supplier acquisition costs, (3) establishing manufacturers' rebates, and (4) using competitive bidding. We continue to strongly believe that action needs to be taken to lower unreasonable drug reimbursement amounts.

Agency Comments

The HCFA concurred with our recommendation, noting that basing reimbursement on acquisition cost is probably the best way to ensure that Medicare pays fair prices for covered drugs. Additionally, HCFA gave a detailed account of their numerous attempts to lower unreasonable drug reimbursement amounts in the Medicare program. Currently, HCFA plans to utilize a number of more accurate drug prices developed by First Databank, publisher of a pricing compendium used by the pharmaceutical industry. HCFA requested that Medicare contractors use these prices when calculating their drug reimbursement amounts. The HCFA also commented that they are working to develop a comprehensive electronic file on the pricing of Medicare covered drugs, and are continuing a competitive bidding demonstration project for albuterol in Texas. In addition, HCFA is consulting with the Department of Justice and the Office of Inspector General on the feasibility of developing additional means to ensure that accurate drug pricing data is used in setting Medicare reimbursement rates. The full text of HCFA's comments is presented in Appendix E.

We commend HCFA's efforts to lower Medicare drug reimbursement rates. We fully support attempts to obtain more accurate prices for the Medicare program. We believe that HCFA's request that Medicare contractors use the more accurate prices supplied by First Databank is a significant first step towards reimbursing drugs in a more appropriate manner.